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MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE

JUNE 1988

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JUNE 1988 VOLUME 48 NUMBER 9

COVER: The State of the Industry

The last year has not been good to mortgage bankers, and many of them are looking to new ways to deal with what by any definition are hard times. Some of the methods are indeed innovative, others are tried and true practices that have worked during previous rollercoaster rides. Here, *Mortgage Banking* looks at the state of the industry today, how it got that way and what the future holds. Then we examine staffing and marketing problems where they are most acute—down there, in the trenches:

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A Statement of Purpose

We are using this space this month to share with you what it is we are trying to accomplish with this magazine. It is, as we say, "the magazine of real estate finance." This means that we try to address issues relating to the entire spectrum of real estate finance and of interest to all real estate professionals, wherever they may work.

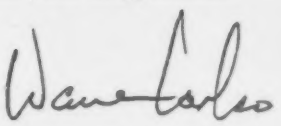
This is a magazine for executives, managers and technicians. Toward that end, we try to publish articles that have enduring value in running a mortgage lending business—on how to run a business and on the technical skills that *are* the business.

About two-thirds of our articles will deal with the internal aspects of mortgage lending—making loans, servicing them, marketing, pricing, hedging and warehouse activities. We will also, however, try to balance our editorial content and relate it to the varied directions and dimensions of real estate finance. In that vein, we will have contributions on national legislative developments, demographic and economic trends and emerging issues in education.

We will do all of this in plain English—clear, concise and to the point, and technically precise.

Mortgage Banking is *not* a monthly news magazine. It will not carry gossip, rumors or trendy descriptions. But it will contain interviews with, and profiles about, people and how they see their business and its future.

I invite your letters commenting on this view of your industry's professional journal, and I welcome your suggestions.



Warren Lasko
Executive Vice President

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
OCT	140	103	37	1,538	1,172	366	124	90	34	1,463	1,056	407
NOV	119	83	36	1,661	1,180	481	101	72	29	1,469	1,065	404
DEC	85	64	21	1,399	1,086	313	94	67	27	1,361	1,055	306
1988												
JAN	78	59	19	1,382	1,069	313	70	54	16	1,257	991	266
FEB	90	67	23	1,514	1,163	351	93	68	25	1,422	1,079	343
MAR_p	**131**	**107**	**24**	**1,543**	**1,244**	**299**	**138**	**106**	**32**	**1,452**	**1,105**	**347**
1987 TOTAL	1,620	1,211	409				1,539	1,124	415			
1986 TOTAL	1,805	1,263	542				1,769	1,185	584			
3 MONTHS												
1988	300	234	66				301	228	73			
1987	349	258	91				355	256	99			
1986	374	254	120				382	241	141			
1985	345	235	110				354	225	129			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
OCT	25	25	54	35	254	251	622	411	23	27	45	29	248	286	561	368
NOV	22	25	45	27	269	313	648	431	20	20	37	24	276	275	537	381
DEC	13	14	37	22	222	281	576	320	18	14	35	26	259	246	485	371
1988																
JAN	14	8	32	24	306	226	463	387	12	8	29	21	270	229	421	337
FEB	12	11	41	26	311	259	585	359	13	11	43	26	259	256	559	348
MAR_p	**23**	**19**	**52**	**37**	**300**	**266**	**551**	**426**	**26**	**24**	**53**	**36**	**303**	**276**	**516**	**357**
1987 TOTAL	269	298	634	420					274	285	578	402				
1986 TOTAL	294	296	733	483					283	290	687	510				
3 MONTHS																
1988	49	38	125	87					49	38	125	87				
1987	47	54	145	103					47	54	146	103				
1986	47	42	182	103					47	44	178	113				
1985	33	32	181	100					46	32	171	105				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1] Sold	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1987														
OCT	301	52	365	6.6	231.0	117.5	23.6	89.9	1,044	671	373	149	114	35
NOV	241	43	364	7.1	237.7	118.6	23.8	95.3	1,042	668	374	130	98	32
DEC	220	37	370	7.6	236.1	118.0	25.1	93.0	1,016	659	357	155	112	43
1988														
JAN	191	41	367	8.2	229.9	115.7	23.1	91.1	1,007	654	353	110	82	28
FEB	220	54	365	7.1	228.8	114.7	22.1	92.0	986	641	345	98	70	28
MAR$_p$	**303**	**69**	**370**	**7.0**	**230.6**	**117.0**	**21.3**	**92.3**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
1987 TOTAL	3,520	671										1,665	1,192	473
1986 TOTAL	3,565	750										1,756	1,206	550
3 MONTHS														
1988	714	92										N.A.	N.A.	N.A.
1987	784	112										367	240	127
1986	708	114										359	236	123
1985	645	102										345	234	111

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JUL	$60,262	$8,182	$19,808	$29,326	$2,946	$41,277	$7,806	$16,741	$16,358	$372
AUG	49,197	6,760	16,746	22,655	3,036	34,025	6,558	14,192	13,031	244
SEP	50,316	7,526	16,761	22,921	3,108	32,472	7,070	13,595	11,617	190
OCT	49,520	7,387	16,719	21,830	3,584	31,286	6,819	13,647	10,604	216
NOV	43,646	5,678	13,708	20,552	3,526	26,461	5,450	11,378	9,411	222
DEC$_p$	**53,124**	**6,794**	**16,617**	**24,613**	**5,100**	**29,492**	**6,582**	**12,238**	**10,505**	**167**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,343	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
12 MONTHS										
1987	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1985	362,178	69,156	145,373	119,616	28,033	238,386	63,296	109,276	64,508	1,306
1984	295,061	50,816	129,482	97,775	16,988	199,228	47,589	96,187	54,626	826

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JUL	$3,441	$236	$1,502	$1,317	$386	$15,544	$140	$1,565	$11,651	$2,188
AUG	2,684	80	1,376	989	239	12,488	122	1,178	8,635	2,553
SEP	2,799	236	1,420	765	378	15,045	220	1,746	10,539	2,540
OCT	3,079	383	1,495	835	366	15,155	185	1,577	10,391	3,002
NOV	2,508	151	1,022	949	386	14,495	77	1,308	10,192	2,918
DEC$_p$	**3,503**	**97**	**1,986**	**928**	**492**	**20,129**	**115**	**2,393**	**13,180**	**4,441**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
12 MONTHS										
1987	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1985	26,498	2,746	15,612	5,368	2,772	97,294	3,114	20,485	49,740	23,955
1984	20,588	443	13,160	5,519	1,466	75,245	2,784	20,135	37,630	14,696

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
JUL	$37,564	$5,600	$20,620	$7,943	$3,401	$142,685	$13,490	$53,530	$58,019	$17,646
AUG	34,176	5,713	19,056	7,461	1,946	131,700	13,206	53,644	47,210	17,640
SEP	37,287	7,705	18,912	8,610	2,060	132,131	15,834	50,892	48,965	16,440
OCT	39,826	10,964	16,768	7,379	2,715	126,818	13,150	50,143	47,170	16,355
NOV	29,594	4,604	15,454	6,675	2,861	126,410	12,484	47,784	49,783	16,359
DEC$_p$	**27,463**	**2,907**	**15,561**	**6,279**	**2,716**	**112,321**	**6,711**	**44,927**	**46,795**	**13,888**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
12 MONTHS										
1987	475,252	96,534	235,457	110,306	32,955					
1986	532,999	128,480	231,915	133,504	39,100					
1985	322,779	59,551	170,755	60,001	32,472					
1984	260,427	44,893	146,184	47,795	21,555					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
OCT	138	56	24	58	150	$10,744	79	$4,816	29	$2,183	42	$3,745
NOV	119	49	21	49	131	9,272	67	4,093	26	1,883	38	3,296
DEC	108	48	16	44	122	8,603	66	3,987	21	1,511	35	3,105
1988												
JAN	110	58	14	38	119	8,246	74	4,453	16	1,143	29	2,650
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR$_p$	**175**	**109**	**15**	**51**	**98**	**7,036**	**49**	**2,927**	**19**	**1,381**	**30**	**2,728**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
3 MONTHS												
1988	424	251	46	127	320	22,553	179	10,731	55	4,027	86	7,795
1987	759	463	132	164	588	40,555	333	20,456	141	10,387	114	9,712
1986	720	477	81	162	349	23,198	174	10,461	60	4,169	115	8,568
1985	446	179	45	222	273	17,539	74	4,163	37	2,416	162	10,960

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
OCT	$1,566	$1,278	$133,102	$3,819	$2,713	$7,882	$3,078	$3,111	$1,911	$5,787
NOV	2,899	1,297	134,633	2,702	2,408	4,271	2,979	2,742	4,636	4,685
DEC	3,115	3,747	139,960	6,374	2,123	−373*	3,261	3,201	3,644	4,696
1988										
JAN	2,254	1,267	140,522	1,683	2,150	3,867	2,168	1,832	1,651	3,790
FEB	2,516	2,629	142,797	3,190	1,869	5,630	3,293	2,414	3,694	3,616
MAR$_p$	**3,823**	**2,776**	**145,242**	**3,352**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**3,458**	**2,516**
1987 TOTAL	25,415	20,531	—	63,230	n.a.	n.a.	n.a.	n.a.	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
3 MONTHS										
1988	8,593	6,672	—	8,225	n.a.	n.a.	n.a.	n.a.	8,803	9,922
1987	4,665	3,760	—	15,681	25,642	30,307	25,305	25,204	36,473	30,535
1986	5,809	3,757	—	9,209	17,619	18,477	13,632	13,470	30,929	15,363
1985	4,831	5,758	—	3,820	9,972	11,339	8,676	7,524	12,512	8,126

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
OCT	10.90%	10.84%	10.87%	9.25%	9.22%	9.71%	11.030%
NOV	10.76	10.59	10.58	9.30	9.25	9.06	10.345
DEC	10.63	10.52	10.52	9.15	9.20	10.15	9.613
1988							
JAN	10.17	10.09	10.10	9.13	9.25	8.93	10.010
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.737
APR$_p$	**n.a.**	**n.a.**	**n.a.**	**9.06**	**9.29**	**8.86**	**10.035**

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[5]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
NOV	10.03%	9.86%	9.82%	10.39%	8.86%	6.19%	7.17%
DEC	10.04	9.96	9.92	10.42	8.99	6.36	7.61
1988							
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	9.39	9.33	9.29	9.91	8.37	5.91	6.62
APR	**9.72**	**9.62**	**9.59**	**10.23**	**8.72**	**6.21**	**6.86**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
OCT	−17	112	109	105
NOV	37	117	100	96
DEC	21	105	97	93
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	**n.a.**	**100**	**90**	**87**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.